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Municipal Taxation

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LAWSON PURDY

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Municipal Taxation

By LAWSON PURDY, New York

By statute the general property tax prevails throughout the United States, with very few exceptions, and local revenue is supposed to be raised by a uniform tax equally imposed on all property. This system is based on the theory that in order to be equal, taxation must be equally imposed on everything that has value. To-day the theory is completely discredited. Hardly a voice is raised in its favor, and the so-called system is a wreck, only held together at all by constitutional restrictions and inherited prejudices. The first problem that confronts us is how to give the general property tax a decent burial.

Constitutional Limitations.

The constitutions of at least twenty-four states contain limitations upon the power of the legislature which render impossible the adoption of any sensible system of taxation. The constitution of Ohio is as bad as the worst, and contains a typical restriction:—"Taxes must be equal and uniform, and imposed on all property both real and personal." The legislatures of states whose constitutions contain such restrictions seem afraid to abolish the restrictions, and have proposed to the people at frequent intervals ill-devised amendments providing for an increase of power to the legislature. Such an amendment was proposed to the people of Minnesota a year ago, providing at great length that the legislature might impose an income tax and might do various other things. The people very properly rejected it. What is needed is an elimination from all constitutions of any restraints upon the power of the legislatures to deal with taxation. The constitution of the United States protects our fundamental rights, and protects them adequately. Why the people of a state in which the laws are about as bad as they can be should be afraid of freedom to change for the better is amazing. The constitutions of New York, Connecticut

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and Massachusetts are practically silent on the subject of taxation. And in some respects those states are far in advance of states which have restrictions. The only danger to which they are subjected by the absence of constitutional restrictions is the danger of having legislation imposed on them like that of Ohio and many of the western states. The first step forward in all the states of the Union but eight should be an amendment to the constitution eliminating all matter relating to taxation.

Local Taxation Complicated by State Taxation.

Local taxation is complicated by state taxation, chiefly because in most of the states a tax is imposed for state purposes upon property as assessed by local officials. This leads to undervaluation by local assessors so as to reduce their share of the state revenue. Several states have succeeded in providing and others are attempting to provide sufficient revenue for the state by special taxes laid on selected subjects at unvarying rates. As a sole reliance for state revenue this is a very bad substitute, because it lacks elasticity. Sometimes the revenue is excessive and there is a mad scramble for appropriations which it is difficult to cut down when hard times reduce the state's income. Sometimes the revenue is insufficient and the legislatures strive to invent new taxes, generally bad ones, and disturb business conditions.

Apportionment of State Taxes.

At least part of the state revenue should always be raised by an elastic form of taxation which can be increased or diminished in accordance with the need for revenue, and whose incidence will be felt by the taxpayers. Such an elastic system was proposed four years ago by the New York Tax Reform Association, and endorsed by the New York Chamber of Commerce and other bodies. It provides for the apportionment of so much state revenue as may be required in excess of that derived from special taxes, to the several counties of the state in proportion to the revenue raised for all purposes by and within each county. By this plan, if the total local revenues amount to one hundred million dollars, and the local revenue of a certain county amounts to one million dollars, that county would contribute one per cent.

of whatever amount the state may need. This plan was adopted by the State of Oregon, by a somewhat imperfect statute, in 1901. The Oregon law is unjust in that the apportionment is based upon county revenue, and not upon the revenue of each county and all the taxing districts within it. The result is that in Oregon, as I predicted, the rich counties will pay less than before, and the poor counties more. As a matter of justice the exact reverse should have been the case. Under the usual plan of raising state revenue by tax upon all forms of property, the poor counties pay more than their share, because in poor counties the personal property is generally more fully assessed, and improvements on land form a larger proportion of the total value of real estate than in populous cities. This increases the burden of taxation upon industry, and to that extent relieves monopoly. If the apportionment is based upon total local revenue, cities will pay more than they do now, and rural districts will pay less, for in cities wealth per capita is greater, and the tax rate is usually higher. A statistical study merely proves what anyone familiar with economic law would naturally deduce—that an apportionment based on revenue is very nearly equivalent to apportionment based on monopoly values. Even if this plan of apportionment of state revenue were not more just, it would still be a vast improvement, because of the necessity of divorcing state from local revenue, and the evils attendant upon raising all state revenue by inelastic taxes. In any event the amount to be raised is small; much too small to cause any undue economy in local expenditures. Indeed the tendency to economical administration of local affairs which would result from the apportionment of state taxes on the basis of local revenue is a desirable feature of this method of apportioning the burden of supporting the state. In the State of New York all the expenses of the state are only about 15 per cent. as much as the total expense of supporting local governments. There are very few states in which more than one dollar in seven is required for state purposes, and in many states a large part of the state revenue is now raised by special taxes.

When constitutional limitations are removed and state revenue is provided without the imposition of a state tax on

Reform in Local Taxation

property as assessed by local officials, the way is clear for needed changes in the methods of raising local revenue.

The chief source of local revenue is now and always will be the taxation of real estate. Real estate now pays from 75 per cent. to 99 per cent. of all local revenue. On this account alone it is of the utmost importance that the assessment of real estate should be as nearly equitable as human machinery can make it. The prevailing practice of disobedience to the law, which requires assessment at full value, or market value, or cash value, renders an equitable assessment an impossibility. After a long struggle the policy has been adopted in the City of New York of assessing real estate as the law directs, and in spite of an insufficient appropriation and a very inadequate number of assessors, the improvement effected in two years has been tremendous. At first there was some opposition, which came chiefly from those who, as one of the tax commissioners said, were afraid that justice would be done; but now the best informed real estate men in the city are almost unanimously agreed that the policy is sound, and that the assessments on the average are much more equitable than in the past. In the New York Herald, of April 6th, Mr. D. Phoenix Ingraham is reported to have said:—"If it can be carried out fairly and accurately full valuation assessment of real property in New York City is the best thing that could be devised. It will do away with the possibility of favoritism and suspicion of dishonesty. Considering the salaries paid the assessors I am almost amazed at the correctness of the last assessment. It was generally fair and accurate, and the rate of taxation kept the total burden to a minimum."

Real Estate Taxation.

Mr. John N. Golding said:—"I believe the law states that property shall be assessed for its full valuation. I believe in carrying out the law. I think this system is preferable to the old system, where it was supposed that the assessment was sixty per cent. of the value of the property. The old way of assessing property seemed to me to be ridiculous. You would find some property assessed for eighty per cent. of what it would bring in the market and others about thirty per cent., but establishing

what the assessors presume to be the full market value is beneficial to all parties concerned."

The criticisms of real estate men reported in the same paper really relate to details, and not to the principle. They complain that there are not enough assessors; that they are not sufficiently paid; and that the work cannot, under these circumstances, be accurately performed. All this is true, and the next step in the City of New York must be to secure a much larger appropriation for the Tax Department and increase the number of assessors and the salaries of the chief deputies.

The Separation of Land and Building Values

One year ago a further improvement was adopted in the City of New York by requiring the assessors to state separately the value of each parcel of land exclusive of improvements. This has been in practice for many years in Massachusetts and a few other states. Our New York plan only differs in this, that while in other states the land value is separately stated, the improvements are also separately stated. In the City of New York we have only two columns of the record for values, in which are set down the land value and the total real estate value. This is an economy of clerical labor, and, we believe, positively exerts an influence on the assessors to keep them from over-valuing buildings. In strict logic there is, of course, no difference between the requirement to state the value of land, of the improvements, and the total, and to state only the value of the land and the total; but when the assessor is confronted with a building, producing a revenue, which would cost thousands of dollars to reproduce, he is reluctant to state directly that the building has no value, even when, as a matter of fact, he knows and everyone acquainted with the property knows that the building adds nothing whatever to the selling value of the property, because it is no longer suited to the site. Even under our New York plan of separately stating the land value but not the improvement value, it is evident that buildings have been over-valued in proportion to the land. A comparison with results in Boston, where assessments are well made, leads to the belief, however, that buildings are less over-valued in the city of New York than they are in Boston.

The requirement of the separate statement of land value has met with cordial approval by real estate experts. Mr. Golding, whom I have already quoted, said: "I think a separation of the land and building values a most excellent one. It enables the owners to see how the assessors arrive at their conclusions." Mr. Franklin Lord, of Daniel Birdsall & Co., is recorded as follows: "The plan of assessing the improvements separately seems to me to be absolutely necessary for the proper working of the new method, because without it we would still be unable to find out what part of an assessment applied to the land, and it would still be possible to favor a property by asserting that the inequality was due to the value of the improvements. If the value of the improvements was not stated, no one could say what comparison might be made between one parcel of land and another. I believe as soon as you get used to the new order of things there will be very few found who would be willing to return to the old chaotic way where everybody talked in a hazy way about a forty per cent. basis and a sixty per cent. basis; and where commissioners when pushed for an answer on the subject would reply that they recognized no comparison, but simply assessed the property for what they thought it ought to be assessed."

A still further improvement was effected by an amendment to the city charter which requires the publication annually of the complete record of real estate assessments. The publication will be made by sections into which the city is divided for the purposes of assessment. Each section contains from ten to thirty thousand parcels, and will be published separately; and persons interested can buy, for a few cents, the assessment roll of one or more sections, or of the whole city. This will render comparisons very easy, and disseminate a knowledge of assessed values which will tend toward constant improvement in the accuracy of assessments.

Publication of Real Estate Assessments.

The removal of constitutional restrictions and the abolition of a state tax on all property locally assessed will make possible a reform without which progress is well-nigh impossible. You all know, and all students of the subject know, that in every state we are attempt-

Local Option.

ing to tax property which ought never to be taxed at all. On this subject city sentiment is naturally far in advance of country sentiment; yet country sentiment rules our legislatures. So long as there must be one rule for the whole State, progress can only be made at the pace of the slowest. With local option progressive communities will furnish object lessons to the unprogressive, and progress will be rapid.

Personal Property Tax.

The few adherents of the general property tax theory always excuse a failure of the law on the ground that it is not sufficiently stringent. They want every man to be required to give a statement of all his property under oath, and in states where there is a severe listing system, complaint is made of the incompetence, or worse, of those charged with enforcing the law. They are generally very ignorant of the lessons of experience, or are so wedded to a theory that they refuse to accept any experience as a guide to action.

In Ohio there is the most efficient and minute scheme of assessing all classes of property which has been devised in any state. Every citizen is bound under oath to make a complete return of his property in detail. If he declines to make the statement required by law, a penalty of fifty per cent. is added. In addition to this they have what is called the tax inquisitor law, which gives the county commissioners power to make contracts with persons who may give information which will result in personal property being placed on the assessment roll. Under the act passed in 1885 applicable to Hamilton and Cuyahoga counties, the amount authorized to be paid to informers was 25 per cent.; and under the general act passed in 1888 applicable to the entire State, the amount authorized to be paid was 20 per cent. of the amount recovered. The efforts of the tax inquisitors are principally devoted to ascertaining what foreign stocks and bonds are improperly withheld from the returns. The result of the severe listing law and the tax inquisitor law has been the steady shrinkage in the assessed value of personal property.

In 1893 the Hon. William McKinley, then governor of the state, appointed a tax commission of four members, two being Republicans and two Democrats, who when appointed expressed

themselves as in favor of continuing the tax upon personal property. As a result of their investigations they said in their report:

"The system as it is actually administered results in debauching the moral sense. It is a school of perjury. It sends large amounts of property into hiding. It drives capital in large quantities from the state. Worst of all, it imposes unjust burdens upon various classes in the community; upon the farmer in the country, all of whose property is taxed because it is tangible; upon the man who is scrupulously honest, and upon the guardian and executor and trustee, whose accounts are matters of public record."

The Hon. E. A. Angell, who was a member of the Ohio State Tax Commission, in an article published in The Independent of February, 1898, said:

"Let us compare the returns of intangible property in Hamilton county thirty years ago with the corresponding returns at the present time:

1866	$17,460,477
1867	17,199,669
1868	15,455,611

The corresponding figures for the present time are as follows:

1894	$5,722,789
1895	6,036,935
1896	5,389,350

"The amount of money returned in Hamilton county in 1866 was $6,778,883, while in 1896 it was $1,097,283. The amount of money on deposit in Cleveland banks in 1896 is about $70,000,000. and of this there was returned for taxation in 1896 $1,741,129. It must be borne in mind that the population and wealth of these cities have marvellously increased within this period. Cincinnati was a city of about 160,000 in 1860; it has now more than 400,000. Its growth in wealth is more striking than the growth in population. So too of Cleveland. Any discussion would be inadequate which did not take these facts into consideration. There are on deposit in the banks throughout the state about $190,000,000; of this $135,000,000 or $140,000,000 are in the five city counties. These city counties return for taxation about $5,000,000 in

money, while the remainder of the state returns $29,000,000 out of perhaps $60,000,000. So of credits and stocks and bonds. The whole amount of stocks and bonds returned in the whole state is but $7,000,000. Thirty years ago it was over $12,000,000. It is evident at once, therefore, that the informer scheme does not make the general property tax effective. It has utterly broken down in Ohio as elsewhere. The merest bagatelle is reached outside of visible, tangible property."

In view of these facts, when anyone asks how personal property can honestly be taxed, I am reminded of Elder Skaats, in "Vesty of the Basins." At the Sunday class meeting the question was propounded, "How can we escape trouble?" Said Elder Skaats, after pondering deeply, "By gum, there ain't no way. I have been married twice, and I know."

In the State of Ohio they are obliged by the constitution to tax their own power to borrow money for the benefit of the state, and of municipalities, with the result that they must pay high rates of interest to foreign lenders. The United States was saved from this absurdity by a wise decision of the Supreme Court. (Weston vs. City Council, 2 Peters, 469.) Chief Justice Marshall, in his opinion, said: "The tax on government stock is thought by this court to be a tax on the contract, a tax on the power to borrow money on the credit of the United States, and consequently to be repugnant to the constitution." That sound, logical decision, rendered over seventy years ago, overthrows every argument for the taxation of debts of all kinds, whether state, municipal, or personal; but it is only through local option that we are likely to be able in the near future to abolish the taxation of debts in the State of New York, or in most of the states of the Union.

Taxation of Debts.

In the State of New York the rural constituencies still cling to the taxation of debts secured by mortgage of real estate, in spite of the fact that the taxation of mortgage debts is about the meanest kind of double taxation there is, for it singles out a man who is in debt to impose on him a burden without resultant benefit to anyone. If by stringent provisions of the law, all mortgages are taxed, there is a certain equality in the iniquity;

but the general rule is that only occasional mortgages are placed on the assessment roll. In the State of New York the interest rate on mortgages is increased only by a portion of the tax, and some owners of mortgage debts who escape taxation profit by a higher interest rate than they would otherwise receive, which all mortgagors must pay; while some mortgagees who are too honest or too ignorant to escape, pay the full tax and submit perforce to a confiscation of their property.

The impression prevails in some quarters that the exemption of mortgage debts from taxation would be a special benefit to those who lend money. So far from this being the case it seems probable that many who lend money on mortgage security and now escape taxation, would then receive a smaller net return by reason of the greater competition in the lending of money. The benefits would be so widely diffused that all classes in the community would share in them.

The slow progress we are making in reforming methods of taxation is due far more to ignorance than to any conflict of interests. Men in the country want to tax the rich man, and go about it in a way that is quite unsuccessful, and recoils with redoubled force upon themselves. Even in cities any demagogue who for the moment gets the ear of the people can get temporary popularity for schemes to tax department stores, to tax reserves of insurance companies, and other forms of wealth or agencies of trade or commerce. Every tax on the products of human labor or upon the processes of trade falls inevitably upon people in proportion as they consume; that is, such taxes are a burden inversely proportioned to the family income. What we need is smaller constituencies to educate, and object lessons which will educate the rest of the people by sheer compulsion.

In conclusion I will sum up the steps which lead to the shortest, easiest way to improve our local tax systems.

Abolish all constitutional restrictions on the power of the legislature to regulate taxation.

Do away with the necessity for uniform State taxation by apportioning State taxes in proportion to local revenue.

Give to every county the right within the general laws of the state to exempt from taxation any class of property, or

to proportionately reduce the assessment of any class of property.

As an immediate reform assess real estate annually, state the value of land separately, and publish the assessment rolls in a convenient form.

Conclusions.

With local option every community will be a debating society, and education which now halts and stumbles will advance with leaps and bounds. People who now fail to understand that taxation is of importance to them will demand enlightenment. The progress of a decade will exceed all the progress of the past one hundred years.

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